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TO RUEHC/SECSTATE WASHDC IMMEDIATE 4530  
INFO RUEHBO/AMEMBASSY BOGOTA 5668  
RUEHCV/AMEMBASSY CARACAS 1774  
RUEHLP/AMEMBASSY LA PAZ JUN LIMA 0639  
RUEHGL/AMCONSUL GUAYAQUIL 0595  
RHMFISS/CDR USSOUTHCOM MIAMI FL  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS QUITO 001395

SIPDIS

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PASS TO USTR FOR BENNETT HARMAN

E.O. 12958: N/A

TAGS: [ETRD](#) [EINV](#) [ENRG](#) [SNAR](#) [ECON](#) [PREL](#) [EC](#)

SUBJECT: AMBASSADOR VISITS MACHALA AND EL ORO PROVINCE

¶1. (U) Summary. In a trip to the southern border province of El Oro, the Ambassador visited U.S. company Machala Power's gas platform and electricity generation facilities and heard about their plight in trying to collect nearly \$50 million in unpaid bills from GOE-related entities. She inaugurated a port inspection facility funded by the Narcotics Affairs Section (NAS) and met with the Mayor of Machala, the Machala AmCham Chapter and the Governor of the Province of El Oro. End Summary.

Machala Power  
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¶2. (U) Machala Power operates a gas platform off the coast of Ecuador. While capable of producing much more natural gas, Machala has been inhibited from doing so because local electricity distributors have failed to pay nearly \$50 million in past due bills. The outstanding debts date to 2003 and Machala has filed a request for international arbitration to collect the unpaid amounts. Ironically, no one in the GOE disputes the amounts owed Machala Power. The GOE simply claims that it does not have the money to pay Machala Power. We and Machala Power have tried to work with the GOE for several years to resolve the impasse.

¶3. (U) Machala Power is only operating two of the eight gas wells on its gas platform. With additional investment at its electric generation plant it could double its power output. However, its headquarters in Texas will not permit any more investment until progress is made on the arrearages. Machala GM John Tomich told the Ambassador that if it could recover the back payments and get assured future payments, it would invest an additional \$125 million in Ecuador. This investment would allow Ecuador to reduce its imports of lower efficiency and less environmentally friendly diesel fuels by \$100-200 million dollars per year.

¶4. (U) Tomich said that he explained the benefits to the GOE and that the Energy Ministry, GOE electricity regulators and the Ministry of Economy agree that Machala should be paid and that Machala's further investment would be a good option for Ecuador. Such sympathy does not, however, pay the bills and Machala has been forced to seek arbitration. Procurador General (U.S. Solicitor General equivalent) Jose Maria Borja has offered to help, but only if Machala drops its arbitration. The Ambassador said that she would continue to push Machala Power's case with GOE authorities.

## Machala Port Inspection Inauguration

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¶15. (U) The Ambassador inaugurated June 1 a new port inspection station at the port facilities in the city of Machala. The port is largely used for exporting bananas, but the banana containers have been used for drug shipments. The NAS funded inspection station is a modern facility with kennels for the dogs that are used to detect drug and other illicit shipments through the ports.

¶16. (SBU) The Ambassador took advantage of the inauguration opportunity to demonstrate again, the strong and broad commitment that the USG has to Ecuador. The broad, extensive and positive press coverage the Ambassador received helped balance the negative press climate on bilateral issues that has prevailed in the wake of the GOE seizure of Occidental Petroleum's assets.

### Meetings with Local Officials

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¶17. (SBU) Machala Mayor Carlos Falquez Batallas made the most of the Ambassador's visit to his office. He gathered all the local press he could find and touted his civil works projects for the city of Machala. Not content with holding court in his office, the Mayor then escorted the Ambassador around the city square outside his office, where little girls dressed as princesses and other citizens enthusiastically approached their "beloved" mayor. Nearly everyone the Ambassador spoke with before and after the visit acknowledged that the current mayor had done much more than most to beautify the city. The Social Christian Party (PSC) mayor models himself on successful PSC Guayaquil Mayor Jaime Nebot. While Falquez seems to spend nearly as much on self-promotion as he does on the city, there is no denying that he is getting some results.

¶18. (SBU) President Palacio's recently (February 2006) appointed Governor of El Oro Province Jofre Roldan Izquierdo is neither a self-promoter nor an effective governor. The high school math teacher turned governor appeared to have no real plan for the province. As an appointed official, Roldan will be replaced by the new president of Ecuador, when she or he takes office on January 15, 2007.

### Ambassador's Meeting with the AmCham

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¶19. (U) The Ambassador met with nearly a dozen members of the Machala chapter of the Ecuadorian-American Chamber of Commerce (AmCham). Every one of them lamented the decisions of the Palacio Administration to pass the hydrocarbon law and seize Occidental Petroleum's assets. However, they had no ideas about what they could do to improve or change the situation and were hoping that the USG or the new administration would make things better.

### Comment

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¶10. (SBU) The reaction of the AmCham is typical of the passive, almost fatalistic attitudes that the Ambassador found in Machala. When she visited community projects that were sponsored by Machala Power, she was greeted with a complaint that not enough was being done by the government for the community. Neither the local, provincial or national governments were doing anything to help these impoverished communities. Thus, they looked to foreign companies and the USG for help, and hoped that maybe their next government will be better.

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